



## INTERNAL SERVICE FUND RATES AND IMPACTS – FY 2017 AND 2018

EXECUTIVE APPROPRIATIONS COMMITTEE – STAFF: SEÁN FAHERTY AND BRIAN WIKLE

## ISSUE BRIEF

**Summary**

An internal service fund (ISF) agency is a state entity that provides goods or services to other government agencies on a cost-reimbursement basis. Each fiscal year ISF agencies propose new rates based on expected costs; the Legislature then makes funding decisions based on those proposals. In the 2016 General Session, the Legislature did not fund all impacts and agencies have had to work within their own budgets to fund those differences.

Since Risk Management rates are determined through an actuarial-type process, rather than a consumption based process, the Office of the Legislative Fiscal Analyst (LFA) recommends the Legislature consider providing \$1.2M (\$0.7M General Fund (GF) and Education Fund (EF)) one-time in FY 2017 and \$1.2M (\$0.7 GF/EF) ongoing beginning in FY 2018 for Risk Management rate impacts, and that the Executive Appropriations Committee (EAC) include rate impacts determined through this process in its discussion of major cost drivers each fall. LFA further recommends EAC refer all other consumption-based ISF rate impacts to the appropriations subcommittee with jurisdiction over the ISF for review and new funding prioritization.

**Background**

ISF agencies employ business practices to take advantage of economies of scale, to avoid duplication of effort, and to provide an accounting mechanism to identify costs of certain governmental services. There are two primary advantages to using internal service funds within government. First, ISFs charge customer agencies at rates set by the Legislature, and the price mechanism motivates customer agencies to find efficiencies to reduce expenses for ISF services so that operational budgets can be utilized elsewhere. Second, agencies can use federal and restricted funds to pay for ISF services rather than relying solely on General Fund and Education Fund appropriations.

The state's major ISFs are operated by the Department of Administrative Services, the Department of Human Resource Management, and the Department of Technology Services.

The **Department of Administrative Services (DAS)** operates five ISFs:

- The *Division of Facilities Construction and Management* provides building maintenance, management, and preventative maintenance services to subscribers.
- The *Division of Finance* administers the Purchasing Card (P-Card) program and provides consolidated budget and accounting services for the Department of Administrative Services.
- The *Division of Fleet Operations* manages the state's vehicle fleet, fuel network, and statewide travel office.
- The *Division of Purchasing and General Services* provides procurement and contract services and mail, copying, printing, and state and federal surplus services.
- The *Division of Risk Management* provides liability, property, and auto physical damage insurance coverage to state agencies, school districts, charter schools, and institutions of higher education. In addition, Risk Management provides workers' compensation insurance coverage to state agencies.

The **Department of Human Resource Management (DHRM)** is the employer of human resource (HR) employees that are embedded in the state's executive agencies. The goal of having HR employees operate under DHRM is to improve control, coordination, and efficiency of HR functions.

The **Department of Technology Services (DTS)** is the state's central service provider for information technology (IT) related activities, having consolidated all agency IT functions and employees to provide more efficient and effective use of IT resources statewide.

### **2016 General Session Rate Impacts:**

During the 2016 General Session, the total projected incremental impact of rate changes for customer agencies was approximately \$4.1 million from all funds including about \$1.9 million from GF/EF.

The Legislature funded projected impacts from shifting the Department of Human Resource Management (DHRM) to an ISF, and it reduced funding for Worker's Compensation (\$1.9 million all sources/\$1 million GF/EF). The DHRM shift produced a net savings of \$1.6 million for the General Fund due to DHRM giving back \$2.6 million GF in the base.

Property insurance and liability rates charged by the Division of Risk Management are calculated using an actuarial-type process. Due to federal rules regarding fair assessment of charges, the division must charge the calculated rates or the federal government could seek reimbursement from the State.

Legislators did not fund \$1.7 million (\$1.4 million in state funds) in cost impacts for changes to rates in the DAS (which includes Risk Management), DHRM, or DTS.

Consequently, agencies have been forced to either reprioritize internally or reduce consumption. ISFs have also considered charging rates that are lower than the rates authorized by the Legislature. However, certain rate impacts are driven by actuarial analysis and are not flexible. Some agencies may be unable to absorb those mandatory costs. In such cases, supplemental appropriations may be necessary.

LFA recommends actuarially calculated rates be reviewed by the Executive Appropriations Committee each fall separately from consumption based rates. This would avoid issues with the federal rules while still maintaining the incentive for customer agencies to find efficiencies in their operations through a separate review process for consumption based rates through their subject matter appropriations committees.

### **2017 General Session Rate Impacts**

For the 2017 General Session, the total projected incremental impact of rate changes for customer agencies is approximately \$2.24 million from all funds including about \$1.35 million from GF/EF. All of this is consumption-based with no change to actuarially determined rates (See Division of Risk Management below).

LFA recommends that discretionary rates be sent to the appropriations subcommittees with jurisdiction over the ISF for review and new funding prioritization. This process would ensure that rates are reviewed each year and that the process for recommending funding will be consistent across agencies.

The **Department of Administrative Services**. DAS provides dozens of services, charged at hundreds of rates through its divisions. The department has proposed a number of rate changes for FY 2018 which are detailed by division both below and by customer agency impact in Table 1. The projected impact of DAS rate changes is \$661,600 including \$645,900 from the General Fund and Education Fund.

The **Division of Risk Management** proposes no rate changes but a limited number of property and liability premium increases in FY 2018 due mainly to improved accuracy in valuation of existing properties and increased square footage as result of new construction.

The **Division of Fleet Operations** proposes the following rate adjustments:

- Charging the actual 2013 contract price for leases, instead of by class, and removing some of the additional fees associated with the monthly vehicle lease rate. Charging the 2013 contract price would increase monthly lease rates by 0.62%, but the removal of the other fees creates a net decrease in impact to the agencies of approximately \$173,000.
- Increasing the low volume (less than 60,000 gallons per year) per gallon charge at State re-fueling sites from \$0.065 in FY 2017 to \$0.105 in FY 2018.
- Increasing all state travel agency service fees by \$1.00 and reducing the Rental Car Admin Fee as follows:

Travel Agency Service Fee	2017	2018	Increase/(Decrease)
Online	\$15.00	\$16.00	6.66%
School/Higher Ed Agents	\$15.00	\$16.00	6.66%
State Agents	\$20.00	\$21.00	5.00%
Agent Group (46+ people)	\$17.50	\$18.50	5.71%
Agent Group (26-45 people)	\$20.00	\$21.00	5.00%
Agent Group (16-25 people)	\$22.50	\$23.50	4.44%
Agent	\$25.00	\$26.00	4.00%
Rental Car Admin Fee	3.5%	1.0%	(71.43%)

The **Division of Purchasing and General Services** proposes a significant restructuring to State Mail and Distribution Services and their associated rates. These services have seen a decline over the past four years resulting in retained earnings declines and net income losses with projections placing losses at over \$1 million in FY 2018. A July 2016 Audit of State Mail couriers and rates found that the current structure does not reflect actual costs and needs to be adjusted to adapt to current usage and stem losses. The current rate structure also does not reflect separate costs to both produce mail and deliver it using courier services.

The proposed structure from DAS would break out these two costs beginning in FY 2018 and would increase mail production rates to more accurately reflect actual costs. These changes will allow State Mail to provide a transparent comparison to private vendors for its customer departments and will reduce its income loss by a projected \$234,000 in FY 2018.

The **Division of Facilities Construction and Management** proposes to increase the facilities management rates for 15 programs and new rates for billable staff labor costs in garages in FY 2018. There are also 13 new programs or scope changes for facilities in FY 2017.

The **Department of Human Resources Management (DHRM)**. Beginning in FY 2012, state agencies have been billed for the Attorney General legal services involving employee issues with Career Services Review Office based on agency FTE. The federal government has said these costs should not be spread evenly across agencies, but should be charged based on usage. For the current fiscal year (FY 2017), DHRM will only charge agencies based on usage and only up to the amount they have been appropriated. Any additional costs will be covered by retained earnings. For FY 2018, DHRM is planning to eliminate the legal services fee, resulting in a projected negative ISF impact of \$300,000, approximately half of which is from the General Fund and Education Fund.

During the 2016 General Session, the Legislature gave the Attorney General's (AG) office authority to create its own ISF. Should the AG's office implement an ISF for FY 2018, a portion of the impact could be covered by savings that result from the elimination of the DHRM legal services rate.

DHRM submitted unadjusted rates to its rate committee this past September. Should the Legislature authorize ISF rate impacts for compensation, the Payroll rate would increase from \$54/FTE to \$56/FTE and would result in an ISF impact of \$24,000, of which \$14,500 would come from the General Fund or Education Fund.

The projected impacts of these changes are included in Table 2 below.

The **Department of Technology Services**. DTS submitted rates to its rate committee this past September that had a total all funds impact of (\$112,000). DTS rates that are changing include those related to Phone Services and communication, Desktop Support, Email hosting and service, certain print services as well as server maintenance and data storage.

Those proposed rates have not been adjusted for any forthcoming compensation increase the Legislature might choose to fund. To the extent that state compensation costs go up, DTS will have to adjust its rates accordingly. The impact of a compensation package that assumes a 2% compensation increase with a 7% increase for health costs for DTS staff could be approximately \$1.76 million including \$832,600 from the General Fund and Education Fund.

The projected impacts of these changes are included in the totals in Table 3 below."

#### **Conclusion:**

The combined impact of the proposed DAS, DHRM and DTS rates, if approved for the 2017 General Session would be \$2.24 million (\$1.35 million GF/EF), all from discretionary/consumption based rates.

Due to the differences between actuarially-based and consumption-based rates, LFA recommends that the EAC include actuarially determined rate impacts in its discussion of major cost drivers each fall.

LFA recommends the Legislature consider providing \$1.2 million (\$0.7 million GF/EF) one time in FY 2017 and \$1.2 million (\$0.7 million GF/EF) ongoing beginning in FY 2018 for Risk Management rate changes.

LFA further recommends EAC refer all other ISF rate impacts to the appropriations subcommittee with jurisdiction over the ISF for review and new funding prioritization.

#### **Tables:**

Table 1 shows by agency the projected impact of the proposed DAS rates.

Table 2 shows by agency the projected impact of the proposed DHRM rates.

Table 3 shows by agency the projected impact of the proposed DTS rates.

**Table 1: Impact of Department of Administrative Services FY 2018 Proposed Rates**

Agency Name	Rate Impact	GF/EF Impact
Administrative Services	(\$92,600)	(\$58,500)
Agriculture	\$2,100	\$600
Alcoholic Beverage Control	\$311,000	\$311,000
Attorney General	(\$10,500)	(\$1,300)
Board of Pardons and Parole	\$1,300	\$1,300
Capitol Preservation Board	(\$800)	\$0
Career Service Review Office	\$400	\$400
Commerce	(\$43,400)	(\$43,100)
Corrections	(\$68,100)	(\$71,300)
Courts	\$112,900	\$96,100
Economic Development	(\$10,900)	(\$8,600)
Environmental Quality	(\$12,700)	(\$4,200)
Financial Institutions	\$100	\$0
Governor's Office	(\$5,400)	(\$4,700)
Health	\$143,100	\$111,100
Heritage and Arts	\$700	(\$2,300)
Human Services	\$91,500	\$78,600
Insurance	(\$48,100)	(\$42,200)
Juvenile Justice Services	\$87,700	\$82,300
Labor Commission	\$2,000	(\$1,500)
Legislature	(\$6,100)	(\$6,300)
Natural Resources	\$61,600	\$66,200
Office of Energy Development	\$100	\$100
Office of the State Auditor	(\$2,400)	(\$1,500)
Public Lands Office	(\$2,100)	(\$1,800)
Public Safety	\$11,700	(\$2,900)
Public Service Commission	(\$700)	\$0

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Salt Lake Community College	(\$8,400)	(\$4,900)
School and Inst Trust Lands	\$18,300	\$0
School and Institutional Trust Fund Office	\$700	\$0
Snow College	(\$10,900)	(\$7,000)
Southern Utah University	(\$37,500)	(\$18,200)
State Board of Education	\$7,000	\$9,100
State Board of Regents	\$57,700	\$55,600
State Office of Rehabilitation	\$10,000	\$0
State Treasurer	\$7,200	(\$500)
Tax Commission	\$229,200	\$185,400
Technology Services	\$600	\$200
Transportation	\$111,100	\$0
University of Utah	(\$197,300)	(\$94,200)
USTAR	(\$200)	(\$200)
Utah College of Applied Technology	\$63,800	\$60,700
Utah National Guard	\$4,500	\$400
Utah State University	\$900	\$700
Utah Valley University	(\$36,500)	(\$17,300)
Veterans' and Military Affairs	\$10,500	\$3,600
Weber State University	(\$76,900)	(\$40,500)
Workforce Services	\$71,000	\$18,000
<b>Total</b>	<b>\$747,200</b>	<b>\$648,400</b>

**Table 2: Impact of Department of Human Resource Management FY 2018 Proposed Rates**

<b>Agency Name</b>	<b>Original Rate Impact</b>	<b>Rate Impact W/ Comp</b>	<b>GF/EF Impact with Comp</b>
Administrative Services	(\$2,200)	(\$2,200)	(\$1,500)
Agriculture	(\$3,400)	(\$3,400)	(\$1,500)
Alcoholic Beverage Control	(\$4,700)	(\$3,900)	(\$3,900)
Board of Pardons and Parole	(\$600)	(\$500)	(\$500)
Commerce	(\$4,100)	(\$3,700)	(\$3,000)
Corrections	(\$44,300)	(\$39,800)	(\$37,900)
Environmental Quality	(\$7,100)	(\$6,600)	(\$1,500)
Financial Institutions	(\$900)	(\$800)	\$0
Governor's Office	(\$200)	(\$100)	\$0
Health	(\$14,700)	(\$12,800)	(\$6,000)
Heritage and Arts	(\$1,500)	(\$1,500)	(\$1,000)
Human Services	(\$54,200)	(\$48,600)	(\$27,500)
Insurance	(\$1,500)	(\$1,400)	(\$1,000)
Juvenile Justice Services	(\$15,600)	(\$13,600)	(\$12,600)
Labor Commission	(\$1,900)	(\$1,800)	(\$700)
Natural Resources	(\$16,600)	(\$16,600)	(\$4,300)
Public Safety	(\$22,900)	(\$22,900)	(\$10,600)
State Board of Education	(\$6,100)	(\$5,700)	(\$2,500)
State Office of Rehabilitation	(\$300)	(\$300)	\$0
State Treasurer	(\$300)	(\$300)	(\$100)
Tax Commission	(\$12,700)	(\$11,500)	(\$6,900)
Transportation	(\$29,900)	(\$29,900)	\$0
Utah National Guard	(\$2,900)	(\$2,500)	\$200
Veterans' and Military Affairs	(\$100)	(\$100)	(\$100)
Workforce Services	(\$41,100)	(\$36,900)	(\$8,900)
<b>Total</b>	<b>(\$289,800)</b>	<b>(\$267,400)</b>	<b>(\$131,800)</b>

**Table 3: Impact of Department of Technology Services FY 2018 Proposed Rates**

<b>Agency Name</b>	<b>Original Rate Impact</b>	<b>Rate Impact W/ Comp</b>	<b>GF/EF Impact with Comp</b>
Administrative Services	(\$144,800)	(\$79,600)	(\$28,200)
Agriculture	\$13,200	\$28,700	\$15,800
Alcoholic Beverage Control	\$51,300	\$80,300	\$80,300
Attorney General	\$9,700	\$25,000	\$18,500
Board of Pardons and Parole	\$2,200	\$3,500	\$3,500
Capital Budget	\$200	\$400	\$400
Capitol Preservation Board	\$500	\$1,000	\$0
Career Service Review Office	\$200	\$300	\$300
Commerce	(\$29,000)	\$500	(\$200)
Corrections	\$144,500	\$268,400	\$264,700
Courts	\$200	\$800	\$800
Economic Development	\$5,000	\$9,200	\$7,900
Environmental Quality	(\$30,900)	\$11,000	(\$400)
Financial Institutions	\$1,700	\$4,400	\$0
Governor's Office	\$7,500	\$36,800	\$27,500
Health	(\$174,900)	\$107,800	\$47,500
Heritage and Arts	\$23,900	\$34,700	\$33,400
Human Services	\$144,600	\$365,900	\$178,500
Insurance	(\$4,500)	\$6,400	\$8,000
Juvenile Justice Services	\$48,600	\$70,100	\$65,200
Labor Commission	\$12,000	\$37,900	\$21,500
Legislature	\$9,300	\$17,000	\$16,900
Natural Resources	\$43,900	\$124,500	\$43,300
Office of Energy Development	\$700	\$1,100	\$800
Office of the State Auditor	(\$10,400)	(\$9,600)	(\$6,100)
Public Lands Office	(\$9,000)	(\$7,200)	(\$6,600)



Public Safety	(\$87,000)	\$42,100	(\$109,600)
Agency Name	Original Rate Impact	Rate Impact W/ Comp	GF/EF Impact with Comp
Public Service Commission	(\$5,800)	(\$4,900)	\$0
School and Inst Trust Lands	\$3,000	\$5,200	\$0
School and Institutional Trust Fund Office	\$0	\$100	\$0
State Board of Education	\$1,800	\$2,200	\$1,100
State Office of Rehabilitation	\$0	\$8,500	\$0
State Treasurer	\$3,800	\$6,000	(\$900)
Tax Commission	\$32,100	\$173,500	\$119,000
Transportation	\$75,000	\$231,100	\$0
USTAR	\$700	\$1,100	\$1,100
Utah National Guard	\$1,000	\$1,400	\$100
Veterans' and Military Affairs	\$4,200	\$8,200	\$2,000
Workforce Services	(\$256,500)	\$143,400	\$26,500
<b>Total</b>	<b>(\$112,000)</b>	<b>\$1,757,200</b>	<b>\$832,600</b>